

MINUTES  
MEETING OF THE  
ILLINOIS STATE BOARD OF INVESTMENT  
FRIDAY, SEPTEMBER 23, 2011 – 9:15 A.M.

Present:        Board Members

Roderick Bashir  
Devon Bruce  
Michele Bush  
John Casey  
James Clayborne  
Thomas Hoffman  
Fred Montgomery  
Judy Baar Topinka

Staff

William Atwood  
Johara El-Harazin  
Timothy Kominiarek  
Adanna Ene  
Scott Richards  
Linsey Schoemehl  
Lorna Scott  
Katherine Spinato  
Alise White

Guests

State Retirement Systems  
    Tim Blair (via telephone)  
Office of the State Treasurer  
    Ed Buckles  
Office of the Comptroller  
    Alexis Sturm  
Marquette Associates  
    Brian Wrubel, Elizabeth Francis,  
    Nat Kellogg, Megan Kaskie  
The Townsend Group  
    Kara Wood  
Franklin Park  
    Christine O'Connor  
Service Employees International Union  
    Edgar Hernandez  
Podesta & Co.  
    Sharon Piet  
Loop Capital  
    Jason Parks  
Pensions & Investments  
    Barry Burr

Absent:        Board Members

Dan Rutherford

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## *ROLL CALL*

Chairman Casey called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present.

## *COMMUNICATIONS*

Director Atwood reported that Cecelia McNair, Secretary, had retired. Chairman Casey read the following Resolution of Appreciation into the record. Mr. Bashir moved to adopt the resolution as read by Chairman Casey. Comptroller Topinka seconded and the motion passed unanimously.

### RESOLUTION of APPRECIATION CECELIA McNAIR

*WHEREAS*, Cecelia McNair, has been a member of the Illinois State Board of Investment staff since October, 1995 through August, 2011; and

*WHEREAS*, Cecelia McNair served with distinction as a Secretary and most recently as Private Secretary to the Executive Director at ISBI during her tenure, demonstrating outstanding dedication in accomplishing the Board's goals and performing her responsibilities diligently ; and

*WHEREAS*, Mrs. McNair has fulfilled her duties to the Illinois State Board of Investment with devotion, ability, competence and integrity; and

*WHEREAS*, Cecelia has earned the affection and respect of her past and present colleagues at the Illinois State Board of Investment;

*NOW THEREFORE, BE IT RESOLVED* by the Illinois State Board of Investment that Cecelia McNair be, and hereby is, commended for her service to the Illinois State Board of Investment as more particularly described herein and be it known that she has merited the gratitude of all the Board Members and Staff and is hereby extended best wishes for continued good health and success in the years ahead.

Chairman Casey referred the Board Members to a proposed schedule of meetings for calendar year 2012, which was distributed. (Official minutes contain attachment.)

## *ELECTION OF OFFICERS*

Chairman Casey stated that the regularly scheduled election of officers was required to be held biennially and called for nominations. Judge Hoffman moved to nominate Devon Bruce as Chairman. Mr. Bashir seconded. Comptroller Topinka moved to close the nominations. Judge Hoffman seconded and the motion passed unanimously.

Ms. Bush moved to nominate the following officers:

Vice Chairman	Fred Montgomery
Recording Secretary	Thomas Hoffman
Member at Large	Roderick Bashir

Mr. Bruce seconded. There being no further nominations, Comptroller Topinka moved to close the nominations. Mr. Bashir seconded and the motion passed unanimously.

Mr. Casey stated that it has been an honor and privilege to serve as Chairman of the Illinois State Board of Investment and that he looked forward to continue his service as a Board Member.

Mr. Bruce assumed the Chair and thanked Mr. Casey for his leadership and presented a proclamation plaque to Mr. Casey for his service as Chairman.

Comptroller Topinka presented a proclamation to Chairman Casey for his dedication and Service to the Illinois State Board of Investment. (Official minutes contain attachment.)

#### ***REPORT OF THE CHAIRMAN***

Chairman Bruce thanked everyone for their votes of confidence and stated that he would be sending Committee appointments within the next few weeks. Mr. Bruce stated that he would like to change the venue of the Board meetings and would report back in the near future.

#### ***MINUTES OF PREVIOUS MEETING***

Comptroller Topinka moved to approve the minutes of the Board meeting held June 24, 2011, in the form previously submitted. Mr. Montgomery seconded and the motion passed unanimously.

#### ***REPORT OF STANDING COMMITTEES***

##### Executive Committee

Director Atwood reported that the Executive Committee had met August 15, 2011 and had considered a deferred compensation hardship appeal.

##### Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- The minutes of the Audit and Compliance Committee meeting held March 18, 2011 were approved.
- Ms. White reported that the FY 2011 audit was in progress and that fieldwork began September 6, 2011.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through June 2011.

- The Commission Recapture Report for the quarter ending June 2011 was reviewed and approved.
- The Records of Vouchers for the months of April, May and June 2011 were reviewed and approved.
- The Committee reviewed and accepted the report on placement agent contacts for FY 2012 1st Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.

Judge Hoffman moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Mr. Montgomery seconded and the motion passed unanimously.

### ***DEFERRED COMPENSATION***

#### Report of Consultant – Investment Manager Performance Review

Mr. Wrubel, Marquette Associates referred the Board Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for the 2nd quarter June, 2011 and distributed an updated report dated August 2011, and reviewed. (Official minutes contain attachments.)

Chairman Bruce initiated discussion regarding investment management fees. Following discussion, Mr. Wrubel stated that the reports would be revised to highlight the higher fees.

#### Update on Loan Program and Implementation of HB489

Ms. Schoemehl stated that ISBI staff was in contact with the Comptroller’s office and was progressing with the other agencies involved relating to the changes that are necessary to agencies’ respective payroll systems in order to implement the Loan Program and it is anticipated that the Administrative Rules changes will be filed in December. Ms. Schoemehl stated that once the amendments to the rules have been completed she would circulate to the Board Members prior to filing.

#### Participant Hardship Appeal Request

Chairman Bruce stated that a Hardship Appeal request had been received and a copy of the hearing officer’s recommendation was previously distributed. (Official minutes contain attachment.)

Following review and discussion, Judge Hoffman moved to approve a hardship appeal request of Keith Nelson (H/S11-181) in the amount of \$19,600. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

## *PRIVATE EQUITY*

### Report of Consultant – Franklin Park

Christine O'Connor, Franklin Park Associates joined the meeting and referred the Board Members to the "Recommendation Report Wicks Capital Partners IV, L.P.", which had previously been distributed. (Official minutes contain attachment.)

### Presentation: Wicks Capital Partners IV, L.P.

Messrs. Black and Klosk were invited to join the meeting. Following introductions, written copies of the presentation were distributed. Following review and answering questions posed by the Members, the Wicks representatives thanked the Board Members for their time and excused themselves from the meeting. (Official minutes contain attachment.)

## *REAL ESTATE*

### Report of Consultant – The Townsend Group

Kara Woods, Townsend Group joined the meeting and referred the Board Members to the "Illinois State Board of Investment Core RFP Review and Recommendation" dated September 23, 2011, which had previously been distributed. (Official minutes contain attachment.)

### Presentation: Heitman America Real Estate Trust

Messrs. Tognarelli, Perisho, Mss. Ludgin and Polito were invited to join the meeting. Following introductions, written copies of the presentation were distributed. Following review and answering questions posed by the Members, the Heitman representatives thanked the Board Members for their time and excused themselves from the meeting. (Official minutes contain attachment.)

### Presentation: Prudential Investment Management/PRISA

Messrs. Smith and Teitelbaum were invited to join the meeting. Following introductions, written copies of the presentation were distributed. Following review and answering questions posed by the Members, the Prudential representatives thanked the Board Members for their time and excused themselves from the meeting. (Official minutes contain attachment.)

Detailed discussion ensued regarding the ISBI Core Real Estate Portfolio. Following discussion, the consultant and staff recommended allocations as follows:

\$100 million	PRISA
\$50 million	Heitman America Real Estate Trust

Ms. Schoemehl reported ownership and political contributions as follows:

Heitman:

No political contributions; registered business entity and 50% owned by KE I LLC; and the below persons have a 5% or greater ownership in KE I LLC:

Maury Tognarelli  
Jerry Claeys  
Jim Bachner  
Gordon Black  
John Clement

Pete Fawcett  
Lewis Ingall  
Blaise Keane  
Tom McCarthy  
Tim Pire

PRISA:

No political contributions; registered business entity and owned by Prudential Investment Management – 75% owned by Prudential Asset Management Holding Company.

Mr. Montgomery inquired about ISBI's previous history with PRISA. Ms. Wood reported that ISBI made a commitment in 2002 of \$250 million and a redemption was made in 2009 due to liquidity issues.

Mr. Bashir moved to approve allocations of \$100 million and \$50 million to PRISA and Heitman American Real Estate Trust, respectively, and a full redemption, approximately \$30 million, from the existing RREEF American REIT II portfolio, recommended by consultant and staff, subject to successful contract negotiations with Heitman and Prudential. Ms. Bush seconded and the motion passed unanimously.

#### ***REPORT OF CONSULTANT – MARQUETTE ASSOCIATES***

##### Investment Performance Report – June 2011 and August 2011 Interim Report

Mr. Wrubel reported that the Investment Performance Report for the quarter ending June 2011 had previously been distributed. Mr. Wrubel distributed the Flash Report for August 2011. (Official minutes contain attachment.)

Mr. Wrubel discussed the use of various benchmarks pursuant to an inquiry from a Board Member.

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)), current Board litigation (5 ILCS 120/2(c)(11)). Mr. Casey moved to go into Executive Session for the above-stated purposes. Mr. Bashir seconded and the motion passed unanimously.

Guest and staff were excused from the meeting with the exception of Director Atwood, Ms. Schoemehl, Ms. Spinato, Mr. Richards and Mr. Kominiarek and consultants Mr. Wrubel, Ms. Francis and Ms. O'Connor.

Mr. Casey moved to return to the open meeting. Mr. Montgomery seconded and the motion passed unanimously.

Ms. Schoemehl reported that the Wicks Capital Management had made no political contributions, was a registered business entity and the ownership structure of the partnership.

Judge Hoffman moved to approve an allocation of \$20 million to Wicks Capital Management IV, L.P. subject to successful contract negotiations and a side-letter amendment disallowing for the use of placement agent fees. Ms. Bush seconded and the motion passed unanimously.

#### Hedge Fund Review

Mr. Bashir moved to accept the recommendation submitted by Marquette Associates and restructure the Grosvenor hedge fund account from a commingled fund to a separate account, subject to successful contract negotiations; and allow the Rock Creek hedge fund account to increase the emerging markets allocation to a maximum of 15% of the account. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachments.)

#### Index Fund Presentation

Mr. Wrubel, Marquette Associates, referred the Board Members to Searchbook: "Small-Cap Core Index Search and Emerging Markets Index Search", which had previously been distributed. Mr. Wrubel reviewed the search process and stated that State Street Global Advisors (SSgA) would present to the Board Members. (Official minutes contain attachment.)

Ms. Blake and Guy were invited to join the meeting. Following introductions, written copies of the presentation were distributed. Following review and answering questions posed by the Members, the SSgA representatives thanked the Board Members for their time and excused themselves from the meeting. (Official minutes contain attachment.)

Mr. Wrubel stated that an allocation to SSgA of approximately \$150-200 million to the Small-Cap Core Index and approximately \$140-150 million to the Emerging Markets Index was recommended by consultant and staff, the exact amount to be determined by the asset allocation rebalancing.

Ms. Schoemehl reported that SSgA had made no political contributions; was a registered business entity and there were no ownership disclosures to report.

Mr. Bashir moved to approve the recommendations of the consultant and staff to engage State Street Global Advisors with allocations of approximately \$150-\$200 million to the small-cap core index and approximately \$140-150 million to the emerging markets index, subject to successful contract negotiations. Ms. Bush seconded and the motion passed unanimously.

### Legal Matters

Director Atwood reported that the RFP for legal services had been completed and referred to Linsey Schoemehl to review. Ms. Schoemehl referred the Board Members to her memorandum "Legal Recommendation" dated September 22, 2011, stating that it was the recommendation of Staff to retain Holland & Knight LLP and Winston & Strawn LLP for general legal counsel services for the Board and further to continue the retention of Kubasiak, Fylstra, Thorpe & Rotunno P.C., O'Rourke, Hogan, Fowler & Dwyer and Reinhart Boerner Van Deuren s.c. (Official minutes contain attachment.)

Chairman Bruce disclosed that Winston & Strawn provided legal representation to him personally. Comptroller Topinka and Senator Clayborne stated that they would reclude themselves from the vote.

Ms. Schoemehl reported ownership the following:

#### Holland & Knight:

No political contributions; registered business entity and the following financial interests/potential conflict of interest disclosures:

Steven Elrod	• Richard Elrod, father, is an elected Cook County Circuit Court Judge
Victor Filippini	• Appointed City Attorney in Lake Forest and Village Attorney in Glencoe
Peter Friedman	• Registered Lobbyist with State of Illinois in 2010 (not renewed in 2011)
Charles Joern	• Elected Village Trustee for the Village of LaGrange Park 1997-2009
Elias Matsakis	• Serves on District 225 School Board from Northfield Township until May, 2007
Anne Murphy	• Currently a registered Lobbyist with the State of Illinois
Robert Vyverberg, Jr.	• Robert Vyverberg, Sr., father is Chief of Staff to the Director of the Division of Mental Health, Dept. of Human Services

#### Winston & Strawn:

Political contribution: Former Governor James R. Thompson contributed \$1,000 to Treasurer Rutherford in March, 2011; registered business entity and the following financial interests/potential conflict of interest disclosures:

Emily Peterson	• Employed by ISBI October 2004 August 2010
Scott Glauberman	• John Reid, father, is a registered lobbyist with the State of Illinois



- Zale Glauberman, father, is a registered lobbyist with the State of Illinois

Following review and discussion, Ms. Bush moved to approve the recommendation as outlined above. Mr. Montgomery seconded. The secretary called the roll and the motion passed with Board Members Bashir, Bush Casey, Hoffman, and Montgomery voting aye and Board Members Bruce, Clayborne and Topinka abstaining from the vote. The motion passed.

Chairman Bruce stated that he was concerned there were no minority/women firms represented and Staff recommended conducting an RFP for a legal firm owned by a minority, female or person with a disability. Ms. Bush moved to approve conducting an RFP for a legal firm owned by a minority, female or person with a disability. Mr. Montgomery seconded and the motion passed unanimously.

## ***REPORT OF THE DIRECTOR***

### Matters Relating to Existing Managers

Director Atwood stated that this item was discussed in Executive Session.

### Watch List

Mr. Richards reviewed the "Watch List" that was previously distributed. (Official minutes contain attachment.)

### Hedge Fund Review

Director Atwood stated that this matter was previously considered.

### Legal Matters

Director Atwood stated that this item was discussed in Executive Session.

### Recommendation for Legal Services

Director Atwood stated that this matter was previously considered.

### Budget Comparison

Ms. White stated that the preliminary Budget Comparisons for the quarter ending June 30, 2011 had previously been submitted. Following review, there being no questions or comments, the Budget Comparison for June 2011 was ordered filed. (Official minutes contain attachment.)

### Update on Securities Lending – Quarter Ended 6/30/11

Ms. El-Harazin reviewed her memorandum "Securities Lending Reporting – June 30, 2011" dated September 12, 2011. (Official minutes contain attachment.)

### Review of Transaction Cost Analysis

Ms. El-Harazin referred the Board Members to the reports "Transaction Cost Analysis (TCA) Summary Report for Equity and Fixed Income for the quarter ending June 30, 2011, and reviewed. (Official minutes contain attachment.)

#### Review of FX Cost Analysis

Ms. Scott referred the Board Members to the report “FX Summary Report” for the quarter ending June 30, 2011, and reviewed. (Official minutes contain attachment.)

#### Minority Brokerage Usage Report

Ms. El-Harazin stated that the “Minority Brokerage Usage Report” for the period ended June 30, 2011 had previously been distributed and reviewed. (Official minutes contain attachment.)

#### Proposed Schedule for FY 2012 Ethics Training

Ms. Scott distributed copies of a proposed schedule for Ethic Training. Following discussion, it was the consensus of the Members to revise the schedule and redistribute.

#### Rebalancing Overview

Ms. Scott referred the Board Members to her memorandum “Rebalancing operations” dated September 8, 2011, and reviewed. (Official minutes contain attachment.)

#### List of Forbidden Entities and Scrutinized Companies

Ms. Schoemehl referred the Board Members to her memorandums “List of Forbidden Entities-Public Act 95-0521 and List of Scrutinized Companies-Public Act 95-616 dated September 9, 2011 and recommended adoption of the revised lists as outlined in the memorandums. Ms. Bush moved to approve the revised lists of Forbidden Entities and Scrutinized Companies as proposed. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Legislative Update

None.

#### Update on Corporate Governance

Ms. Schoemehl reviewed the Harvard Law School Shareholder Proposal Group and recommended ISBI join the group. Following discussion, Ms. Bush moved to approve Staff proceed with the Harvard Law School Shareholder Proposal project on behalf of the Board. Judge Hoffman seconded and the motion passed unanimously.

### ***REPORT OF ANY BOARD MEMBER***

None.

### ***UNFINISHED BUSINESS***

None.

### *NEW BUSINESS*

Chairman Bruce initiated discussion regarding changing the venue of ISBI Board Meetings and proposed conducting Committee meetings the afternoon prior to the Board meeting including a Board dinner. Further, Chairman Bruce stated that he felt investment manager presentations were valuable.

Ms. Bush initiated discussion on revising the agenda and binder to indicate action items.


Chairman Bruce reported that Mr. Bashir and he would be attending the Council of Institutional Investors Fall conference held in Boston, MA earlier in the month.

### *NEXT MEETING AND ADJOURNMENT*

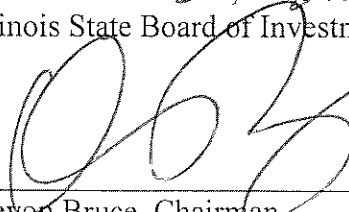
Chairman Bruce stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, December 16, 2011 at 9:00 a.m. and 9:15 a.m., respectively.

At 1:10 p.m., there being no further business to come before the Board, Mr. Bashir moved to adjourn. Judge Hoffman seconded and the meeting was adjourned.

Respectfully submitted,



Thomas E. Hoffman, Recording Secretary  
Illinois State Board of Investment



Devon Bruce, Chairman  
Illinois State Board of Investment